THE SECRETARY OF THE TREASURY

WASHINGTON

82-5480/22

August 9, 1982

DDI-6560-82

SECRET ATTACHMENTS

MEMORANDUM FOR: THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE

Subject: Additional Papers on U.S.-EC Economic Relations

The following papers should be added to the package circulated to the SIG-IEP on July 27:

(1) USDA papers submitted as a follow-up to the July 27 IG discussion on agricultural problems with the EC;

(2) USTR's revised paper on the GATT Ministerial; and

(3) A CIA background paper on the pipeline.

Staff comments on the July 27 package and on these additional papers should be given to Robert Cornell (566-2748) by Friday, August 13.

for Joanna R. Shelton
David E. Pickford
Executive Secretary

Attachments

SECRET ATTACHMENTS

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

AUG 4 1982

Memorandum For the Interdepartmental Group on US-EC Relations

FROM: Deputy Under Secretary for International Affairs and Commodity Programs

SUBJECT: Transmittal of Attachments to the SIG Paper on US-EC Agricultural Trade

During tne discussion of the subject paper at the IG meeting on July 27, more specifics for the proposals in Option 3 were requested. Attached are background papers which describe these proposals in detail. These include the following:

1) An analysis of a limited counter subsidy program for butter, raisins and poultry;

2) A review of the Hagedorn Bill which provides authorization for ten-year credit guarantees and an interest rate buydown;

3) A comparison of the Hagedorn and Helms Bills which describes their differences.

4) A description of the USDA Usual Marketing Requirement Proposal.

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Analysis of Butter Export Subsidies

The purpose of this paper is to evaluate the potential impacts on both the U.S. and the EC of selling CCC stocks of butter in the world market in an attempt to drive the price down to the GATT minimum level. The hypothesis is that such a reduction in price would place additional pressure on the Community and increase the chances of gaining concessions during future negotiations. 1/

Methodology

The effects on the world price of a series of U.S. offers were estimated using a price elasticity and assuming that demand would become more inelastic as supply increased and price decreased. The results of these calculations for butter are shown in Table 1. As of July 23, 1982, the U.S. had sufficient uncommitted stocks of butter (200,000 MT), to more than cover the offers required to bring world prices down to the GATT minimums. 2/

The estimated price effects were then used to estimate the costs to both the U.S. and the EC. The analysis depends critically on assumptions made about: (1) the EC reaction and (2) cost treatment of CCC stocks. In the tables that follow we have assumed that the EC would match the U.S. price

1/ In seeking this objective through counter subsidies, butter is an example of an ideal commodity to use from our perspective--higher volume exported by our competitor than by the U.S., thus the price impact adds to a greater total loss to them than to the United States.

2/ Cheese was not included in the calculations because the cheddar we have in stock is not widely traded in the market by the EC. Their 1980 exports of this type of cheese were around 5,000 MT, and so a price reduction on cheddar would have little or no effect on the EC. NFDM was not included because of the relatively small international market and because larger costs would be imposed on the U.S. than on the EC.

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cuts and that larger quantities sold at lower prices would be equally divided. A very plausible case can be made that the EC will choose not to increase dairy export restitutions but to accumulate stocks at intervention prices and retaliate against the U.S. by increasing export restitutions in a different commodity, say wheat, where the U.S. may be more vulnerable on to restrict imports of some commodity such as corn gluten feed.

An important distinction between costs to CCC and costs to the EC is the accounting treatment. For the CCC, butter stocks are already on hand and may be viewed as sunk costs. In fact, if one assumes the only CCC alternative is eventual spoilage, revenue gained from an export sale even at the GATT minimum price is a reimbursement to the fund that would not otherwise be available. EC expenditures for export restitution, on the other hand, represent current budget outlays.

We have examined four possible scenarios (See Table 2.). Under Scenario I, the U.S. would offer our total uncommitted stocks (200,000 MT) and the price would fall immediately to the GATT minimum level of $1200 per MT. The EC and New Zealand would continue to export their normal quantities. The loss to both the EC and New Zealand would be the difference between the current world price ($2200 per MT) and the GATT minimum times their export volumes.

Under Scenario II, the U.S. would offer 50,000 MT increments and sell a total of 200,000 MT. The price would fall in stages assuming no buyer expectations of additional sales after each offer. Again, the EC and New Zealand would continue their normal exports. This scenario yields the lowest cost to the EC as their restitutions would increase in steps as the price declines.

Scenario III would have the EC matching the U.S. incremental offers and splitting the expanded market as the price declines. Thus the U.S. and the EC would each sell 100,000 MT before the price reached the GATT minimum level. The cost to the EC would be higher under this scenario since they would be paying higher export restitutions on both their existing volume and the additional 100,000 MT.

Scenario IV has the EC cutting back exports in amounts equal to our incremental offers in an attempt to hold the current world price. The EC would probably have to purchase the amounts at intervention and accumulate stocks. The U.S. would realize the largest revenue, and the EC the largest budget outlay, of the four scenarios. This scenario would not effect New Zealand.

Another possible response by the EC and New Zealand would be the purchase of the U.S. butter for resale. If the two would cooperate and be able to buy the butter at the GATT minimum price, this may turn out to be their least costly option.

In considering potential markets, New Zealand, as a part of our earlier agreement has the right of first refusal for any new U.S. butter sales through this calendar year. A New Zealand refusal on a U.S. offer may indicate little available market opportunity. If markets can be found the USSR and Eastern Europe offer the greatest potential. Other possibilities include several Middle Eastern countries. Egypt has requested butter and butter oil but only through P.L. 480.

Table 1. Price Effects of Increasing Supply by 50,000 MT Increments

Butter

		Increment				
	Current	1st	2nd	3rd	4th	5th
Price ($/MT)	2200	1971	1739	1498	1235	941*
Change in Price ($/MT)	--	229	232	241	263	294
Total Quantity Traded (1000 MT)	800	850	900	950	1000	1050
Increment Offered (1000 MT)	--	50	50	50	50	50
Price Elasticity	.6	.6	.5	.4	.3	.2
GATT Minimum Price ($/MT)	1200					

*Price would drop only to GATT Minimum levels.

Table 2. Alternative Butter Market Scenarios

	Scenario I	II	III	IV
	($ Millions)			
U.S. Revenue from Sale	240	346	173	440
U.S. Storage Savings	17	17	17	17
Total U.S Benefits	257	363	190	457
EC Cost (Additional Restitutions)	430	206	383	--
EC Cost (Buying at Intervention)	--	--	--	697
EC Cost (Storage)	--	--	--	17
Total EC Cost*	430	206	383	714
New Zealand Cost (price declines)	210	98	98	--

*These potential budgetary costs represent a signficantly greater current outlay for the EC. For example, in 1982, the expected EC total EAGGF guarantee expenditures were $13.2 billion and export restitutions for dairy products were $2.1 billion.

Cost of U.S. Export Subsidies on Raisins

If the U.S. were to match EC domestic subsidies on raisins with equivalent export subsidies on U.S. shipments of raisins to the EC market, the total cost would be approximately $17.4 million. This figure is based on current EC subsidy levels which could change with the new marketing year beginning September 1.

The U.S. raisin industry has put forward a request for export subsidies based on another set of criteria. Rather than matching the EC subsidy, they have based their request on the difference between the landed cost of their product in Hamburg (96¢/lb) and the price European importers have told them they must come down to (60¢/lb) in order to compete with the Greek product. The major difference between our result and the industry's, however, is that the industry wants a subsidy for shipments to all destinations, not just to the EC.

The following is a comparison of the two results.

	FAS Estimate	Industry Request
Subsidy required	$755/MT	$794/MT
Total subsidy cost for 23,000 MT* to the EC	$17.4 million	$18.3 million
Total subsidy cost for 54,400 MT** to the world	$41.1 million	$43.2 million

* 23,000 MT represents the largest volume of U.S. raisin exports to the EC in recent years.

** 54,400 MT represents normal U.S. exports to the world, according to the U.S. industry (60,000 short tons).

The U.S. can help the domestic raisin industry without jeopardizing our Section 301 action in the GATT by subsidizing an amount equivalent to the EC subsidy, and announcing that this action is a temporary measure to protect our trade interests while the GATT dispute settlement procedure runs its course. The U.S. is not attempting to gain an unfair share of the EC or world market, but only to re-establish its competitive position vis a vis low subsidized EC prices.

Brief Explanation of the EC Subsidy: The direct subsidy to processors is not the main element of total EC aid to the domestic raisin industry. Despite that subsidy (about $128/MT), Greek traders have been unable to sell within the EC market because they have been forced to buy raisins from the growers at an inflated minimum price. Greek raisin stocks have consequently grown to enormous levels, and the EC has been forced to offer large quantities at low fixed prices, with the Community absorbing the loss. The EC is currently offering 25,000 MT of sultanas at about $828/MT. This compares to the minimum grower price of $1,240/MT and estimated processing costs of $343/MT (EC figures). Since Greek raisins should therefore be valued at no less than the total of these two numbers, or $1,583/MT, the effective EC subsidy is $755/MT (i.e., $1,583 minus $828).

Cost of U.S. Poultry Export Subsidies to Selected Markets

Of all the dairy, livestock and poultry commodities, whole broilers have probably been hurt the most by EC subsidies. Most of the damage has been in the form of preemption of U.S. sales to the Middle East, which is by far the largest and most competitive market in the world for whole broilers. While we probably could not match the EC subsidy dollar for dollar on every sale in every market, we could focus on one or more markets to demonstrate the impact that subsidies have.

A counter-subsidy action would probably have the best chance of success in a country where broilers are imported by the private sector. Otherwise, such action could easily be rendered ineffective by government policy decisions. In the Middle East, this eliminates the large markets of Egypt and Iraq. In addition, the Kuwaiti Government imports a substantial amount of whole broilers. However, in the United Arab Emirates and Saudi Arabia virtually all poultry meat is imported by the very competitive private sector.

Exporters from the U.S. poultry trade estimate that they could deliver whole broilers to the Middle East for about $1,500 per metric ton, C&F. It is also estimated that C&F prices of as low as $1,100 per metric ton would be required to undersell EC exporters. This would require a subsidy of about $400 per metric ton which would compensate U.S. producers for the EC subsidy, partially offset an EC freight advantage and allow U.S. producers to market a smaller and lighter colored bird.

The United Arab Emirates (UAE) imported about 40,000-45,000 metric tons of whole broilers from all sources in 1981. Of this, probably 33,000-35,000 tons came from EC countries. EC exports of whole broilers to the UAE in 1982 will probably be at or slightly above the 1981 level. To subsidize 35,000 tons of whole broiler shipments to the UAE at $400 per ton would require a total expenditure of $14 million.

Saudi Arabia, which probably imported a total of about 250,000 tons of whole broilers in 1981, also appears to be an attractive market for this kind of action. However, to displace EC exports to Saudi Arabia at the 1981 level would require subsidizing about 110,000 tons of whole broilers. At $400 per ton, this would cost $44 million. In addition, three EC countries - France, West Germany and Denmark - have had substantial shares of the EC total to the UAE while recent EC shipments to Saudi Arabia have been almost exclusively from France. France would probably be in the best position for a price war because of its heavy domestic poultry subsidies and present overproduction of broilers for export.

Review of Hagedorn Proposal

A bill providing legislative authority for one variation of the P.L. 480 Credit Facilitating Program has been introduced in Congress by Congressman Tom Hagedorn. Among provisions of that bill are:

-- autnorization for credit guarantees for a term of ten years.

-- an interest buy down of four percentage points.

-- a provision that would limit the funds used for the interest buy down to no more than 25 percent of the P.L. 480 Title I/III program level as provided for in the annual appropriations act.

-- exemption of commodities exported under this authority from compliance witn the 75/25 percent allocation requirement of Section III.

-- exemption from cargo preference requirements.

The P.L. 480 Credit Facilitating Program would promote additional agricultural exports by stimulating U.S. bank financing for foreign purchasing of U.S. commodities on credit terms of ten years.

The program would be directed to those creditworthy middle and upper income developing countries, where additional U.S. agricultural exports are likely to be generated through extension of the credit and lower interest rates. It is estimated that an additionality factor of 70 percent will apply for agricultural commodities exported through the program. The relatively high level of additionality results from a number of factors.

First, the interest buy down will lower the effective price of U.S. commodities to the foreign purchaser. The lower price initiates an increase in the total quantity demanded. Previous analyses have shown the price elasticity of demand for the set of countries considered for this program is approximately -.5.

Second, the commodities exported through this authority will comply with traditional food assistance standards of being "additional" to what the recipient country would normally buy on commercial terms. Usual marketing requirements would be included in agreements under this authority, thereby protecting the normal level of commercial sales.

Third, in addition to contributing to an immediate increase in direct consumption, the terms and conditions of the credit guarantee and interest buy down program would provide developing countries a strong incentive to build emergency reserve and food security stocks for the longer term. The term of the credit allows countries to amortize their investment in food security over a ten year period rather than making the outlay all at one time.

The loan guarantee on principal and interest outstanding would remain a contingent liability for the CCC for the length of the financing period. Federal outlays would result in any case of nonpayment by the foreign bank that has issued the irrevocable letter of credit to the U.S. bank participating in the program. The interest buy down by the CCC would be paid directly to the participating bank using P.L. 480 appropriated funds.

The Hagedorn proposal is illustrative of the additional export leverage that could be obtained through the new legislative authority for P.L. 480. With no legislative change, it is estimated that 3,665,000 metric tons of commodities valued at $777.6 million will be exported through the Title I/III program in FY 1983, assuming the Administration's budget request of 859.0 million is enacted by the Congress. However, if the Hagedorn proposal were enacted and 25 percent of Title I/III funds were used for the interest buy down, total Title I/III tonnage would increase to as much as 8,849,000 metric tons, valued at $1,611.2 million.

ESULTS ASSUMING A 4 PERCENT BUY DOWN WITH 10 YEAR REPAYMENT TERMS.

	1982	1983
XPORT INCREASE (MMT)		
WHEAT	3.6	3.0
CORN	2.1	2.2
SOYBEANS	.4	.3
XPORT INCREASE ($MIL.) 1/		
WHEAT	658	550
CORN	257	272
SOYBEANS	113	86
TOTAL	1028	908
RODUCER PRICE INCREASE ($/BU.)		
WHEAT	.21	.23
CORN	.06	.09
SOYBEANS	.23	.31
REDIT VOLUME REQUIRED ($MIL.) 2/		
WHEAT	940	785
CORN	367	389
SOYBEANS	161	123
TOTAL	1469	1297
UDGET OUTLAY REQUIRED ($MIL.) 3/		
WHEAT	139	116
CORN	54	57
SOYBEANS	24	18
TOTAL	217	192
EFICIENCY PAYMENTS SAVED ($MIL.) 4/		
WHEAT	262	287
CORN	180	270
TOTAL	442	557
TORAGE PAYMENTS SAVED ($MIL.)	28	26
NCREASE IN NET FARM INCOME ($MIL)	1000	1600
NCREASE IN GNP ($MIL) 5/	1850	1634
NCREASE IN FEDERAL TAX REVENUE ($MIL) 6/	123	109
NCREASE IN EMPLOYMENT (THOUSANDS) 7/	29	26

/ VALUED AT $175/MT FOR WHEAT, $120/MT FOR CORN, $275/MT FOR SOYBEANS.
/ ASSUMES 70 PERCENT ADDITIONALITY.
/ DIRECT OUTLAY FOR INTEREST BUY DOWN PAYED UP FRONT.
/ BASED ON A 40% PARTICIPATION IN ACREAGE REDUCTION PROGRAM EACH 1 CENT PER BUSHEL PRICE INCREASE ON WHEAT LOWERS DEFICIENCY PAYMENTS $12.5 MILLION, FOR CORN EACH 1 CENT INCREASE LOWERS DEFICIENCY PAYMENTS $30 MILLION.
/ GNP MULTIPLIER IS 1.8 OF THE INCREASE ON EXPORT VALUE.
/ BASED ON 12 PERCENT OF THE INCREASE IN EXPORT VALUE.
/ 28,700 JOBS PER $1 BILLION EXPORT VALUE.

Comparison of the Hagedorn and Helms Bills
Re: Interest Rate Buy-down and Subsidy Provisions

Hagedorn	Helms
Provides for interest rate buy-down for 4 points on credit guarantees of 10 years duration. No direct export subsidy provisions.	Provides for interest rate buy-down for an amount set by the Secretary on credit guarantees of up to 10 years duration. Also provides for export subsidies for those commodities where substantial displacement of US sales are occuring.
Uses PL-480 funding for government cost of the buy-down. No additional budget outlay, rather a reallocation of existing PL-480 budget.	Uses CCC funding for government cost of buy-down and or export subsidies requires new appropriation for budget outlay.
Revision of basic PL-480 program legislation to tighten concessional terms to upper and middle income developing countries and to increase total market for exports.	Three year legislation to retaliate against subsidy practices of export competitors.
Provides for waiver of cargo preference.	No mention of cargo preference. Questions may be raised on application of cargo preference. If CP were applicable it would cancel the incentives to importing countries provided by the buy-down provisions.

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USDA USUAL MARKETING REQUIREMENTS PROPOSAL

Background

During the 30-year history of the P.L. 480 program, usual marketing requirements (UMRs) have become accepted as the means to assure food aid does not displace commercial trade. Two sections (103(c)) and (103(n)) of the P.L. 480 legislation include this requirement. UMRs have become a standard accepted aspect of food aid programing recognized internationally.

The purpose of a UMR is to protect commercial trade. The definition of commercial trade has been reviewed periodically. At present in view of the European Community's (EC) highly subsidized agricultural exports, such a review is again necessary.

Proposal

In view of the intent of P.L. 480 legislation and the fact that EC exports are subsidized ones, the Department of Agriculture proposes that in monitoring compliance with UMRs, subsidized trade be excluded.

While continuing to use the standard 5-year average import level to establish UMRs, monitoring of compliance would be changed. The United States does monitor the UMRs it establishes.

Implementation of this proposal could be expected to lead to a changed trade pattern over a period of time. This approach will protect valid commercial trade and assure that subsidized agricultural exports are acknowledged as noncommercial.

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FAS/EC
8-4-82

Recent EC Actions Having Negative Effects On U.S.-EC Relations

-- The EC's 1982/83 price package ignored CAP reform mandate objectives, most obviously by failing to align EC and world grain prices and by enacting an overall average support price increase of nearly 11 percent.

-- The EC Commission's request for a mandate to negotiate long-term supply agreements for agricultural commodities and its approaches to certain LDC's provoked strong representations from the U.S. because LTAs appear to be a first step in institutionalizing the disposal of surplus commodities through export subsidies.

-- The EC has proposed limiting imports of feedgrain substitutes, particularly corn gluten feed, despite well known U.S. objections.

-- Last fall the EC Commission actively sought to impose a tax on edible oils in an attempt to reduce consumption of soy oil; the proposed tax was dropped only after strong U.S. opposition.

-- The EC has accused the U.S. of undue public rhetoric regarding U.S.-EC agricultural disputes but EC officials have, themselves, made several highly publicized speeches complaining about U.S. actions.

-- The EC has used procedural delaying tactics to put off the establishment and work of the various GATT panels, to the point that none have met the timeframes called for in the GATT.

-- The EC has threatened to withdraw concessions on raisins and high quality beef as a part of the Greek accession negotiations.

-- The EC has refused to seek a mutually acceptable solution to the problem of Mediterranean citrus preferences, as called for in the Casey-Soames Understanding.

-- The EC has claimed that the U.S. has abrogated the Casey-Soames Understanding and publicized our differences over the heretofore unpublicized understanding.

-- The EC issued a press statement on the negotiations with the U.S. on Greek accession depicting the U.S. position as totally unreasonable.

-- The EC established a production subsidy system for raisins in 1981 despite repeated U.S. objections and despite EC assurances during the MTN that U.S. concerns on raisins would be met during enlargement negotiations.

-- The EC has requested Article XXII consultations regarding U.S. sugar quotas; this action is being taken in spite of the U.S. decision to put on hold our 301 complaint on the EC sugar regime.

-- EC rules for the implementation of the high-qualitly beef (HQB) quota, particularly the quarterly issuance on licenses, have made U.S. utilization of the quota difficult.

-- The EC has allowed EC imports of Canadian beef under the HQB quota which may be displacing potential U.S. sales.

-- The EC raised its poultry export subsidies twice in 1982 (in January and in June) despite our Subsidies Code complaint regarding the high level of EC export subsidies on poultry.

-- U.S. poultry exporters to Germany and the U.K had to modify their plants to use the counter flow (spin-chilling) process required by those countries even though there is no proof that the end product is in any way superior to traditionally-processed U.S. poultry.

-- The U.K. has banned poultry imports, ostensibly to protect their industry against Newcastle disease.

-- The EC has been employing delaying tactics to avoid responding to the U.S. requests for technical information on its subsidy program on poultry dating back to our Article 12 consultations in February 1982.

-- The French have refused to certify additional U.S. horsemeat plants for export to France and abruptly canceled a visit by French inspectors to U.S. plants because of political reasons.

-- Progress on establishing a Third Country Red Meat Directive that is reasonable and acceptable to the U.S. has been very slow, and recently there appears to be some reversal in accepting the principle of "equivalency" of measures.

-- The U.S. has recently been forced to conduct three investigations of EC cheeses undercutting U.S. prices contrary to U.S. law and to an agreement reached between the U.S. and EC.

July 29, 1982

ISSUE

For the first time since 1973, the trade ministers of the eighty-seven members of the General Agreement on Tariffs and Trade (GATT) will meet in November 1982 to examine, at the political level, the functioning of the multilateral trading system. The idea of convening the high-level meeting at this time was suggested, in part, by the EC (Denman). Plans for the meeting are being carried out in a Preparatory Committee, which is not anticipated to complete its work until just before the November meeting. Since the specific subjects to be addressed, with the exception of agriculture, are not among the contentious issues in U.S.- EC relations, with good will on both sides preparations for the Ministerial should proceed on course. However, the success of the meeting will depend directly on our bilateral relationship with the EC as well as the state of the global economy.

EC POSITION

The EC representative to the GATT has been instructed to "distance himself" from the Ministerial preparatory process in light of recent U.S. action in the trade field. Privately, EC officials have said that they still support the goals of the Ministerial and will work with us to ensure a successful meeting but that publicly they must maintain a more critical posture.

CURRENT U.S. POSITION

The U.S. strongly supports the Ministerial meeting. Our objectives for the meeting are to receive commitments from the trade ministers to strengthen the GATT, resist protectionism, provide a forum for the discussion of developing country trade issues, and launch a program for trade liberalization in the 1980's. This should include work on the emerging problems of trade in services, trade-related investment measures, and trade in high-technology goods.

OPTIONS

In the context of U.S.- EC relations and the work of the SIG, there are no substantive options concerning the GATT Ministerial. Officials at the highest levels of both governments agree that the GATT Ministerial will focus on the functioning of the multilateral trading system and address long-term trade policy matters. The short-term problems of our bilateral relationship should not be allowed to disrupt our mutual longer-term objectives.

RECOMMENDATION

The USG should not change its position on the Ministerial and should continue to press for an ambitious agenda. We also should continue the dialogue with appropriate EC and member state officials to create the atmosphere necessary for a successful Ministerial meeting.

DISCUSSION

The Ministerial meeting provides a prime opportunity for trade ministers to reaffirm their countries' commitment to uphold GATT principles and strengthen the operation of the system. This session will be held during a period of strong protectionist pressures resulting in large part from the prolonged recession that has gripped member countries. Decisions taken at the Ministerial will set the course of GATT activity during the 1980's, and can determine whether the organization will continue to be a major force for trade liberalization and the effective settlement of disputes. Given the difficult global economic situation and the increasing pressures for protectionism, the U.S. and EC, as leaders in the GATT, have an important stake in seeking agreement on how to strengthen the system.

While the U.S. has taken a much more ambitious approach to the Ministerial than the EC, discussions in the Preparatory Committee and in private conversations have revealed few substantive differences. The Community has not been actively supportive of all U.S.-proposed agenda items, but the Director-General of the GATT has confirmed that the major U.S. proposals most likely will be on the agenda. These include trade in services, trade-related investment measures, and trade in high-technology goods. For each of these items, the U.S. is proposing that the GATT begin to study the trade problems associated with these issues and examine how they relate to current international rules. The EC has already acquiesced to the placement of these issues on the meeting agenda.

The few substantive differences which do exist concern issues that either are being dealt with outside the regular GATT framework or are specific bilateral issues which will not be part of the Ministerial agenda (e.g., steel, the pipeline decision and the number of U.S.-EC trade disputes currently before the GATT). Though not directly related to preparations for the GATT Ministerial per se, there are spill-over effects from resolving the current bilateral trade tensions and the prospects for a successful Ministerial meeting. To the extent that these problems can be resolved prior to the Ministerial, there are possibilities for an improved U.S.- EC relationship, and thus the chances for a productive Ministerial session will be enhanced. This is not to suggest, however, that the USG should "pay" for a successful Ministerial by resolving bilateral issues in a manner not in the best interests of the the U.S. The details of these problems and recommended courses of action are the subjects of other SIG papers.

In spite of the current tensions, the preparations for the Ministerial meeting have developed a momentum of their own. We have reached tacit agreement with the EC on issues of importance to us and are reasonably certain of achieving our objectives for the Ministerial. Any further modifications of the Ministerial agenda are unlikely to result in tangible improvements in our overall trade relationship with the EC. However, in order to ensure that preparations for the meeting proceed on course, and that the stage is set for the trade ministers to make concrete decisions to improve the trading system, the U.S. should continue the dialogue

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with EC and member state officials concerning the Ministerial issues.

The primary substantive difference between the U.S. and EC in the context of the Ministerial is on the treatment of agricultural issues. The U.S. is a major, efficient producer of agricultural products and seeks to liberalize agricultural trade. The EC is an inefficient producer of agricultural products, and thus opposes agricultural liberalization. It is clear that many other countries, including Australia, Canada, New Zealand and a number of developing countries, agree with us that trade problems affecting agriculture must be addressed at the Ministerial. Negotiations are taking place in Geneva to determine just how this issue should be framed on the agenda. The U.S. favors a strong work program leading to trade-liberalizing negotiations. An active agriculture program in GATT at the time that the EC is modifying the Common Agriculture Policy to accomodate Spanish accession will be helpful in minimizing the negative effects on third countries.

Continued high-level discussions with appropriate EC and member state officials concerning the Ministerial preparations appear to be the best way to ensure that the broader tensions in the U.S.- EC relationship do not disrupt the progress anticipated from the Ministerial meeting.

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IMMEDIATE!

4 August 1982

PLEASE LDX THE ATTACHED TO:

Marc Leland
Assistant Secretary for International Affairs
Room 3430
Main Treasury
TEL: 566-5363

ATTN: Mat Hennessy
Robert Cornell (566-2748)

Please call for hand pick-up.

This CIA paper was initially prepared as a contribution to a longer paper on the gas pipeline project. It is self-contained, however, and I believe presents the best summary and assessment of information on the views and positions of the West European companies and governments on this issue. I believe you should consider sending it to the SIG members as an additional background paper.

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NIO/Econ
7E48 [redacted] STAT